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## Guatemala

## Coffee

## Annual

## 2002

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**Report Highlights:** Coffee production has decreased to the lowest levels in the last twenty years. For the year 2002-03 production is forecast at 3.75 million bags and exports are forecast to decrease to 3.5 million bags. Political instability is forecast due to farm invasions and a strong migration to the city and the northern countries. In addition, the Government of Guatemala increased taxes recently and implemented reforms in some taxation laws. As a result production costs have been increased and many coffee farms have faced liquidity problems. In contrast, recently the Government of Guatemala authorized a \$100 million trust fund to help coffee farmers recover from the crisis.

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Guatemala [GT1], GT

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## **Executive Summary**

The Guatemalan coffee crisis continues, in response to low world coffee prices production has decreased to the lowest levels in the last twenty years. For the year 2002-03 production is forecast at 3.75 million bags, a decrease from the 2001-02 estimated data of 3.8 million bags. Exports for 2001-02 are estimated at 3.6 million bags and a decrease to 3.5 million bags is forecast for the 2002-03 crop.

In the last couple of years the coffee industry has been experiencing a downsizing in the production units in response to poor coffee prices. The crisis has been affecting the local economy and especially in the rural areas. For the current coffee harvest employment of farm labor will be only one half of the normal requirements. This will severely impact the poor rural population who depend upon coffee harvest employment as one of their few sources of cash income.

As a response of the crisis, total supply has also decreased significantly due to a decrease of smuggled coffee from Honduras and a decrease in their local production. Guatemalan production numbers do not differentiate between local production and illegal imports since domestic producers usually claim such coffee as their own for commercial purposes. Current PS&D registers smuggled coffee from Honduras as imports showing a difference between this report's production numbers and local numbers provided by the Guatemalan Coffee Association (ANACAFE).

Certifying farms for organic coffee production is becoming more popular in order to give coffee a value added and survive the crisis. Organically grown coffee can demand a premium of up to \$20 per bag, which for a farmer is very attractive in the current situation of low prices.

Guatemalan coffee consumption decreased slightly at 420,000 bags in 2002 due to a decrease in soluble consumption in response to higher demand for specialty coffees and Guatemalan exports of solubles to neighboring countries. For 2003 consumption is expected to remain steady at 420,000 bags.

PSD Table						
Country	Guatemala					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	272	272	272	272	0	272
Area Harvested	265	265	230	230	0	225
Bearing Trees	749	749	750	750	0	750
Non-Bearing Trees	90	90	91	91	0	91
TOTAL Tree Population	839	839	841	841	0	841
Beginning Stocks	50	50	75	75	5	5
Arabica Production	4467	4467	3800	3800	0	3775
Robusta Production	27	27	27	27	0	27
Other Production	0	0	0	0	0	0
TOTAL Production	4494	4494	3827	3827	0	3802
Bean Imports	300	300	150	150	0	150
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	300	300	150	150	0	150
TOTAL SUPPLY	4844	4844	4052	4052	5	3957
Bean Exports	4344	4344	3627	3627	0	3500
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	4344	4344	3627	3627	0	3500
Rst,Ground Dom. Consum	400	400	400	400	0	400
Soluble Dom. Consum.	25	25	20	20	0	20
TOTAL Dom. Consumption	425	425	420	420	0	420
Ending Stocks	75	75	5	5	0	37
TOTAL DISTRIBUTION	4844	4844	4052	4052	0	3957

## Production

Based upon contracts ANACAFE reports that the Guatemalan coffee production from the harvest 2001-02 is estimated at 3.8 million bags. For the crop 2002-03 production is forecast to decrease even further to 3.75 million bags. This is the smallest output since 1985 and is around 16 percent less than the previous crop. This year we

understand that many coffee farms are closing or laying off labor to reduce production costs.

In the current harvest period the coffee industry is experiencing the lowest prices in the last forty years. In a regular harvest season the coffee industry employs around 40 percent of the agricultural farm labor and supports around 62,500 farm owners throughout the country. Currently, 230,000 hectares are expected to be harvested the lowest area since 1977. For 2002-03 harvest area is forecast to be reduced even further to 225,000 hectares.

Large and medium sized farms represent around 70 percent of Guatemala's coffee production. Increases in wages costs and decreases in coffee income, have forced some of these farmers to either stop coffee production or diversify to other crops. This has been the case especially in the coastal areas where alternatives exist for the land. During the past marketing year the cost of wages in coffee were \$431.05 million, while total income from export sales represented \$218.8 million (95% of total production is exported) leaving coffee farmers with a \$212 million loss. In addition, during the harvest season coffee farms employ around 500,000 people for different labor activities. In 2002-03 employed labor is expected to be reduced to 225,000 people.

Another factor causing the dramatic drop in Guatemala's total coffee supply is a significant reduction of smuggled coffee from Honduras. Local production numbers do not differentiate between local production and illegal imports since local producers usually claim such coffee as their own for commercial purposes. Current PS&D registers smuggled coffee from Honduras as imports showing a difference between this report and local production numbers. For the 2002-03 crop smuggled coffee from Honduras is expected to remain steady at 150,000 bags.

Coffee produced in Guatemala can be classified as prime washed, extra prime washed, hard bean, and strictly hard bean. Strictly hard bean is produced in higher and mountain areas, while prime and extra prime are being produced in the lower altitude coastal areas. Hard bean coffee is produced in the lower altitude mountain areas and in the higher altitude coastal areas. Due to low world coffee prices there is an existing shift in coffee production, with more areas of strictly hard bean being produced and less areas of prime and extra prime being produced. This is due to the fact that strictly hard bean has a higher value in comparison to prime and extra prime. Among regions producing strictly hard bean in Guatemala are Antigua, Atitlán, Huehuetenango, Cobán and Fraijanes. Some coffee farmers located in the south part of the country as we previously mentioned are either abandoning their farms or shifting to other crops such as bananas, rubber, and palm. in response to the substantial decrease in world prices, discouraging investment in coffee production.

Many coffee farmers realize that changes are needed. Some will diversify into other crops, others will grow organic coffee and sell to niche markets. The interest in farming organic coffee is increasing in Guatemala. International markets give a bonus above the regular price for organically farmed coffee. For 2002, Guatemala's registered organic coffee production is expected to still accounts for 5 percent of total production, because of the time lapse needed to be registered and the time lapse needed for new organic plants to start bearing fruits. Results are expected to be seen in about 5 to 10 years.

## **Consumption**

Guatemalan coffee consumption decreased slightly at 420,000 bags in 2002 due to a decrease in soluble consumption

in response to higher demand for specialty coffees and Guatemalan exports of solubles to neighboring countries. For 2003 consumption is expected to remain steady at 420,000 bags.

Import Trade Matrix			
Country	Guatemala		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	60 Kg bags
Imports for:	2001		2002
U.S.		U.S.	
Others		Others	
Honduras	317,500	Honduras	150,000
Total for Others	317500		150000
Others not Listed			
Grand Total	317500		150000

Export Trade Matrix			
Country	Guatemala		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	60Kg bags
Exports for:	2001		2002
U.S.	1,779,000	U.S.	1,650,000
Others		Others	
Germany	550,000	Germany	500,000
Japan	300,000	Japan	250,000
Belgium	255,000	Belgium	200,000
Netherlands	220,000	Netherlands	180,000
Italy	170,000	Italy	130,000
Canada	170,000	Canada	130,000
Sweden	170,000	Sweden	120,000
France	130,000	France	100,000
Finland	100,000	Finland	67,000
Total for Others	2065000		1677000
Others not Listed	500,000		300,000
Grand Total	4344000		3627000

## Trade

Exports for the 2002-03 crop are forecast for a further dramatic decrease to 3.5 million bags. If this forecast is achieved, it will be the lowest exports since 1995.

Imported contraband coffee from Honduras is estimated at 150,000 bags for 2002. About one half of last year's level.

The reduction in contraband is due to local incentives from the Honduran Government to have their farmers deliver the crop within Honduras. For the 2002-03 crop smuggled coffee from Honduras is expected to remain at 150,000 bags.

Again the United States is Guatemala's most important customer, accounting for almost half of total Guatemalan coffee exports. Germany, Japan, Belgium, Netherlands and Sweden are normally the next top five export destinations. Most exports are during the months from December to May.

## **Policy**

Recently the Government of Guatemala authorized a \$100 million trust fund to assist coffee farmers during the crisis. The trust fund will be managed by ANACAFE and will provide financial assistance to coffee farmers at a low interest rate. Currently, the Government sees the trust fund as a revolving fund that will keep assisting coffee farmers in the forthcoming future. In spite of Government assistance to the sector, the Government of Guatemala increased taxes and performed reforms in some of the taxation laws, which according to ANACAFE will raise costs and depress the industry even further. ANACAFE argues that such Governmental decisions will increase unemployment, land invasions and migration. In addition encourage bankruptcy of productive units and decrease the economic activities in coffee producing regions. Nevertheless the government is raising taxes to balance the budget as required in the country constitution.